DOCUMENT RESUME

ED 360 467 CE 062 879

AUTHOR Kuwahara, Yasuo
TITLE Industrial Relations System in Japan. A New Interpretation. Japanese Industrial Relations Series 16.
INSTITUTION Japan Inst. of Labour, Tokyo.
REPORT NO ISBN-4-538-74016-0
PUB DATE 89
NOTE 34p.
AVAILABLE FROM Japan Institute of Labour, Chutaikin Bldg., 7-6 Shibakoen 1-chome, Minato-ku, Tokyo, 105 Japan (1,000 Japanese Yen).
PUB TYPE Reports - Research/Technical (143)

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS Business Communication; *Employer Employee Relationship; Foreign Countries; Industrial Structure; *Labor Relations; Personnel Management; Quality of Working Life; *Unions; Vocational Education
IDENTIFIERS *Japan

ABSTRACT

Opinions about industrial relations (IR) in Japan are extremely diversified. The main concern regarding IR appears to be whether Japan can maintain the vitality and flexibility to cope with the changes in the industrial structure and technology in a stagnant world economy. The lack of opposition and dispute between labor and management may be the most important feature for summarizing labor-management relations in modern Japan when making international comparisons. Hypotheses for understanding Japanese IR have been postulated in regard to the following: unintended consequences, homogeneous structure, business community of management and labor, global competition and the needs for flexibility, adaptability in competitive markets, and transformation of the paradigm of IR. The historical development of labor relations in Japan shows a spirit of cooperation. By any measurement of cooperation, labor-management cooperation is strongest in Japan. A special feature of the corporate structure is management's role as referee between the employees and the stockholders. Other features include a continuous path of promotion, firm-specific training, built-in wage-profit system, and transit members of unions. A typical system for mutual communication is the "labor-management consultation system." In the future, unions must minimize adverse effects of competition among rival companies, individualization, and fragmentation of IR. (Appendixes include 25 references and a chronological table of IR in Japan.) (YLB)

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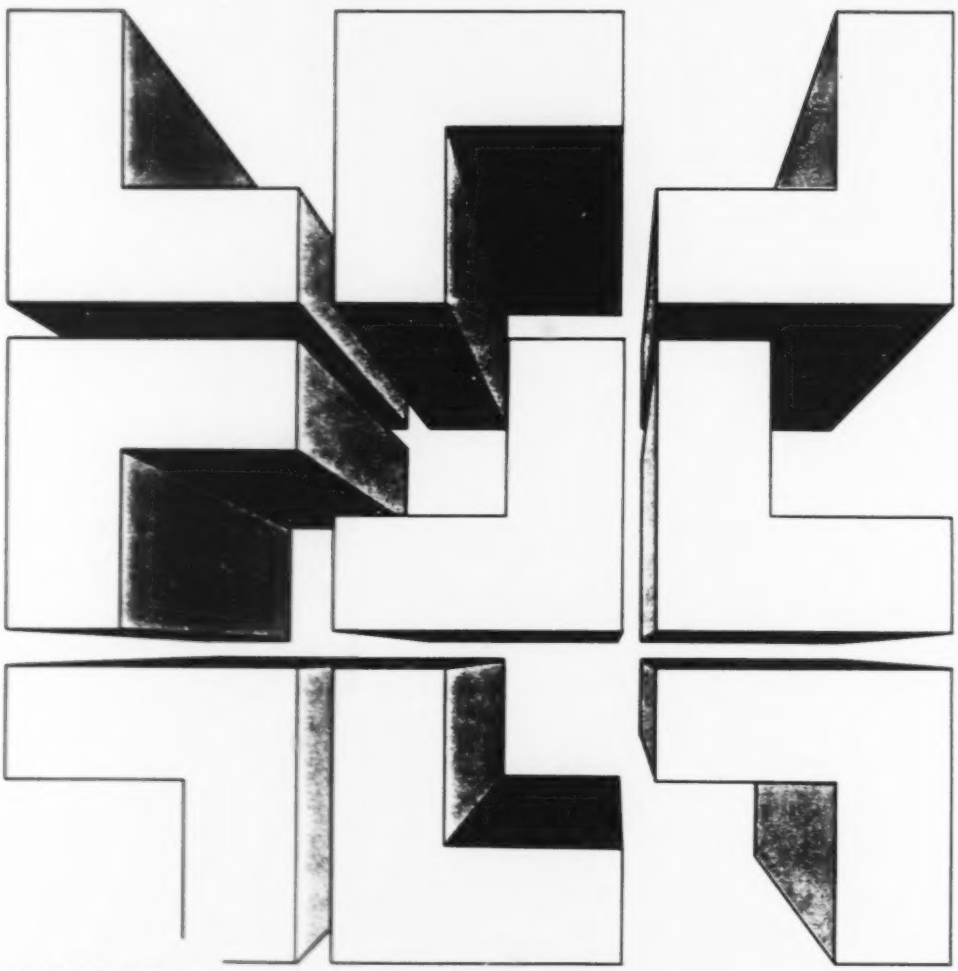

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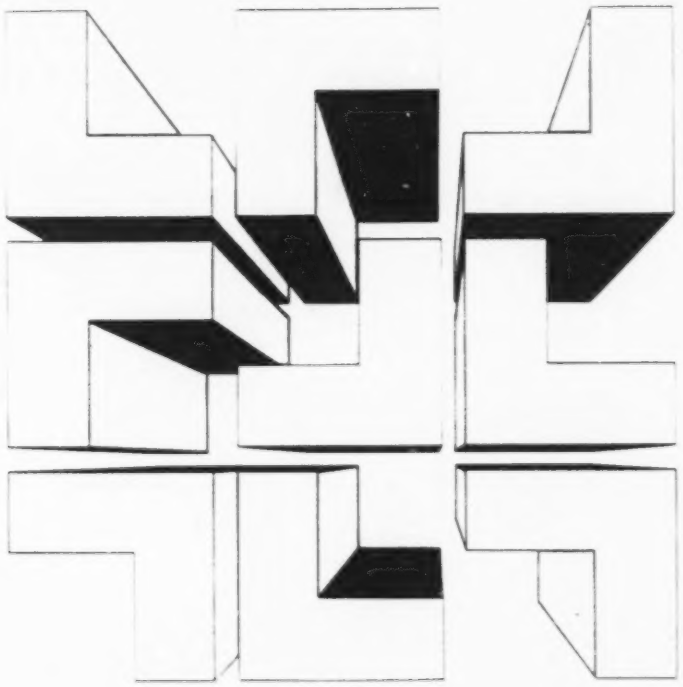
JAPANESE INDUSTRIAL RELATIONS SERIES 16

INDUSTRIAL RELATIONS SYSTEM IN JAPAN

—A New Interpretation—

Yasuo KUWAHARA

Professor, Dokkyo University



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Published by the Japan Institute of Labour,
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A Note of Explanation about This Series

The Series on Industrial Relations in Japan seeks to make available for interested persons abroad accurate and reliable information on the labor market and industrial relations in Japan. Cognizant of the fact that the number of persons desiring such information has increased rapidly in recent years, the Japan Institute of Labour has, with the cooperation of the Ministry of Labour, prepared an easily understood guide for those wishing to know more about this aspect of life in Japan.

***The Japan Institute of Labour** was founded in September, 1958, according to the provisions of Law No. 132 which was legislated by the Diet in May, 1958. The Institute seeks to utilize every academic discipline in conducting objective but intensive studies on labor economies and industrial relations. By means of various programs in research and education, the Institute hopes to improve the system of industrial relations in Japan.*

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Introduction

As the 20th century draws to a close, Japan has drawn the envy and criticisms of many nations, including its closest allies. Japan's success has generated new tensions as trade conflict has worsened perceptibly from a state of "friction" to the brink of "war". Conflict with Japan's trading partners grew steadily through the 1970s but it was not until the 1980s that the level of tensions escalated rapidly to crisis proportions.

1. Oil Crisis: A Turning Point

Japan, like other major industrialized nations suffered a recession following the oil crisis of 1973. Due to Japan's heavy reliance on oil imports, the sharp rise in prices was especially devastating. The effect was not limited to the reduction of energy consumption in industry, and, seemingly threatening the very foundations of the economy, spreading panic among consumers who had been enjoying a period of prosperity. A high rate of economic growth associated with the so-called "economic miracle" had been maintained for nearly two decades until 1973 when the first oil crisis occurred highlighting Japan's vulnerabilities.

Spiralling inflation caused by the oil crisis, inflicted a serious blow to Japan's economy. Even though Japan managed to survive the two oil crises through trial and error, the global context surrounding the economy underwent enormous changes.

The world economy had been steadily developing from the 1960s, but it stagnated and became increasingly confused in the wake of the two oil crises. One of the major elements contributing to the change in circumstances was the decline in the relative position of the U.S., which had led the world politically and economically. The share held by the U.S. of the world's total GNP had decreased to nearly 29% by 1984 from the level of 40% at the beginning of the 1960s, spelling the end of Pax Americana. The European countries as a whole also experienced decline.

On the other hand, Japan increased its share of the world economy to 10% in 1984 from 3% in 1960, becoming a global "economic power", and arousing concern in some corners of the world. Various countries have tried to identify the secret of Japan's success and imitate part, or even all, of the Japanese economic and management system.

However, these changes cause some embarrassment among Japanese people, because the Japanese have never experienced being a model for the rest of the world. Since the Meiji Restoration, there has always been concerned with catching up to other nations it deemed more advanced.

2. "Wages as High as European Countries"

Modeling itself on the U.S. and European countries, Japan dreamed of catching up with them in the period between the end of the Second World War and the beginning of the 1970s. The labor unions ever adopted the slogan "wages as high as European countries" for the spring offensive in the early 1970s. Not only labor, but also the business world was very active in investing in mass production and automation under the widely accepted slogan "Let's try to catch-up to the West European Level". Reaching the level of the U.S. would have been like touching a twinkling star in the sky.

With the rapid rise of the nation's economy, Japanese people are now required to explain themselves on various occasions to people of other countries. Regarding the economic situation alone, the concerns of foreigners are complex enough. Typically, they are concerned with and interested in Japanese management, with its ability to extract a high level of performance at the micro-economic level, as well as in the extremely cooperative nature of industrial relations. It is believed that Japan survived the economic crisis of the late 1970s through a flexible approach of labor and management to external factors. In this context, this paper focuses on the present status of industrial relations in Japan, against the backdrop of changes in the world economy since the 1970s.

Chapter I
How Can Japanese Industrial Relations Be Evaluated?

Academic research on the interpretation of industrial relations in Japan is rather confused. The reason for this is that industrial relations in Japan were until recently deemed to be "behind" those of the other advanced capitalist countries such as the U.S. and the major European countries. It was always assumed that Japan needed to "catch up" with the models of industrial relations prevalent in other OECD nations, and the types of industrial relations in the U.S., the U.K. and West Germany were assumed, explicitly or implicitly, to be the ones that Japan should learn from. However, the Western countries, which once led Japan, have had sluggish economies for some time, while Japan alone is steadily developing, although there are problems to be solved on the horizon. Thus, the fallen idols have lost their legitimacy as models. Moreover, the former models are now looking for a new model themselves, and ironically Japan is frequently the source of inspiration.

1. Confused Situation

Under these circumstances, opinions about industrial relations in Japan are extremely diversified. In simple terms, at one end of the scale it is thought that industrial relations and labor practices in Japan are still underdeveloped in various aspects despite the development of Japan in other regards. It is further maintained that this is the basis for the prosperity of the Japanese economy. At the other end of the scale, industrial relations in Japan at present are characterized as "advanced" from the viewpoint of economic realism and rationality, which is the foundation of success. Some people insist that some special, cultural features, inherent to the society, are the roots of industrial relations in Japan, making it impossible to make a comparison with other models.

The above differences of opinion are based on different conceptions of the realities, ideology, and how to view things in historical context. A discussion of this is beyond the scope of this paper. However, despite the different opinions, most people implicitly agree that the paradigm for considering industrial relations is now at a sharp turning point.

When revolutionary changes happen, the model previously supported loses favor, and there is a search for alternatives. In this sense, does Japan have the necessary qualities to be the model of the era?

2. Flexibility and Cooperation

Summing up the different concerns about industrial relations in Japan, it amounts to whether Japan can maintain the vitality and flexibility to cope with the changes in the industrial structure and technology in a stagnant world economy. Key words in today's industrial relations are "elasticity" or "flexibility" in dealing with changes and "cooperative" relations between labor and management.

It is top priority for the U.S. and European countries, which are struggling to revitalize their sluggish economies, to make their industries internationally competitive again and to introduce new technologies. However, the introduction of new technologies often reduces manpower requirements, and causes employment problems and new labor-management conflicts. In some European countries where unemployment rates are high, labor and the management negotiations often result in showdowns, although both parties conceptually understand the necessity for new technologies. As a result, the incentive for entrepreneurship in business activities is reduced, and management becomes reluctant to expand the workforce.

So, in what sense can industrial relations in Japan be called "flexible" or "cooperative"?

The terms flexibility and cooperation used in describing labor-management relations, are not completely clear in the strict sense. The commonly accepted definition seems to be: labor and management can increase or decrease wages and the size of the workforce according to the profits of the enterprise; there is virtually no conflict or opposition to changes such as reorganizing the work places to cope with business performance; and there are few labor-management conflicts as a result.

This is not to imply, however, that there have always been few labor conflicts in Japan. The number of industrial disputes such as strikes and the number of mandays lost thereby had been rising every year, with some fluctuation, up until the oil crises. In addition, there were frequently

Table 1. Number of Labor Disputes and Mandays Lost

Year	Number of disputes				Number of mandays lost			
	Per year		Spring offensive		Per year		Spring offensive	
	No. of cases	Yearly change	No. of cases	Yearly change	No. of cases	Yearly change	No. of cases	Yearly change
		%		%		%		%
1966	2,845	20.6	696	Δ29.6	2,742	Δ51.6	1,736	Δ49.6
1967	2,284	Δ19.7	573	Δ17.7	1,830	Δ33.3	895	Δ48.4
1968	3,167	38.7	886	56.4	2,841	55.2	2,026	126.4
1969	4,482	41.5	1,560	74.1	3,634	27.9	2,678	32.2
1970	3,783	Δ15.6	1,433	Δ8.1	3,915	7.7	2,481	Δ7.4
1971	6,082	60.8	2,481	73.1	6,029	54.0	4,613	85.9
1972	4,996	Δ17.9	3,065	23.5	5,147	Δ14.6	3,137	Δ32.0
1973	8,720	74.5	3,961	29.2	4,604	Δ10.5	2,839	Δ9.5
1974	9,581	9.9	5,375	35.7	9,663	109.9	7,917	178.9
1975	7,474	Δ20.9	3,772	Δ29.8	8,016	Δ17.0	3,743	Δ52.7
1976	7,240	Δ4.4	4,000	6.0	3,254	Δ59.4	2,156	Δ42.4
1977	5,533	Δ23.6	2,997	Δ25.1	1,518	Δ53.3	1,014	Δ53.0
1978	4,852	Δ12.3	3,149	5.1	1,385	Δ10.6	899	Δ11.3
1979	3,492	Δ28.0	2,518	Δ20.0	930	Δ31.5	551	Δ38.3
1980	3,737	7.0	2,860	13.6	1,001	7.6	652	18.3
1981	7,034	88.2	1,854	Δ35.2	554	Δ44.7	342	Δ47.5
1982	6,779	Δ3.6	2,175	17.3	538	Δ2.8	301	Δ12.0
1983	4,814	Δ29.0	1,986	Δ8.7	507	Δ5.8	300	Δ0.3
1984	3,855	Δ19.9	743	Δ62.5	354	Δ30.2	163	Δ45.6
1985	4,230	9.7	2,277	206.5	257	Δ27.4	168	2.8
1986	1,439	Δ66.0	839	Δ63.2	253	Δ1.9	141	Δ15.6
1987	1,202	Δ16.5	500	Δ40.5	256	0.1	183	29.8

Source: Ministry of Labour. *Statistical Survey on Industrial Disputes.*

Notes: 1) "Spring offensive" is the name for the concerted wage-increase demands, from February through April before 1971, and from February through May thereafter.

2) In the column for rate of increase or decrease from the previous year, a triangle means a decrease.

serious disputes before the 1960s, in which the interests of both parties were in sharp opposition. The oil crises provided a turning point in this respect, too. The number of industrial disputes and the number of mandays lost have decreased steadily from the peak in 1974 just after the oil crises (Table 1).

Japan attracts much attention from abroad for its high level of "cooperation" in industrial relations, although the evaluation of this factor varies to a large extent depending on the position of the observer. In other words, some may look at the so-called "communal" interest shared by labor and management, while others may concentrate on the mechanism supporting their peaceful coexistence. Small-group activities such as QC circles and flexible adjustment of employment are also attracting attention, presumably because they are seen as factors contributing to Japan's success.

3. Japanese Industrial Relations: Different Principles?

Those seeking novel features eventually come to lifetime employment, seniority-based wages, enterprise unions, and the philosophy of cooperative management, all of which have long been regarded as characteristic of labor practices and industrial relations in Japan. Ironically, however, these are the features that were previously regarded as anachronistic, and though the opinions of labor and management differed, attempts were made up until the beginning of the 1970s to abolish these apparent "anachronisms". Especially, all labor unions wished to evolve into industrial or craft unions from their enterprise-based status.

These characteristics of industrial relations in Japan were conceptualized from the late 1950s through the 1960s, mainly through the observations of foreign researchers. In

those days, Western countries were still the models for Japan, and the characteristics of labor practices and management in Japan were taken to be qualitatively different from those of their Western counterparts. Not only most non-Japanese, but also the Japanese themselves, took for granted the above interpretation.

Abbeglen, an American scholar of management who played the greatest role in the formation of the above-mentioned views, muted his earlier criticisms and suddenly became a convert, extolling the virtues of Japanese style labor relations. In the revised publication of his historic work "Japanese Management" (1958) he wrote:

> In summary, labor relations in Japan have taken a quite different pattern from in the West. The Japanese pattern of trade union relations is, inevitably, consistent with the overall employment system. The consequences of this pattern are to Japan's very considerable economic advantage (Abbeglen, 1973, p. 38).

For many scholars including Abbeglen, industrial relations in Japan were considered to be based on different principles from those of the Western models, even to non-Japanese researchers with profound insights and knowledge of Japan. In Abbeglen's interpretation, industrial relations in Japan emerged from the particular cultural background of Japan, and are deeply rooted in the specific features of the country.

In his evaluation of the lifetime employment system of Japan, Abbeglen further maintains:

> The system of employment in Japan is a highly efficient one, and one that is congruent with the main values and behavior patterns of Japanese society. It is in many ways a more human, less brutal system of employment than the West has developed. It certainly is characterized by less conflict. Both its economic effectiveness and its social value work to maintain the system (Abbeglen, 1973, pp. 48–49).

The essence of the major issues concerning contemporary Japanese industrial relations are addressed in these remarks. The lack of opposition and dispute between labor and management may be the most important feature for summarizing labor-management relations in modern Japan when making international comparisons.

So what conditions are supporting this situation and what theories are there to explain it?

Chapter II
A Hypothesis on the Structure of Industrial Relations in Japan

The traditional concepts of industrial relations assume the existence of the labor union as a "permanent" (Marx) or "continuous" (Webbs) associations of wage earners, who individually would be in a very disadvantageous position vis-à-vis management, but who achieve a far stronger bargaining position in the labor market by virtue of collective bargaining. Other than the organizational structure of labor unions, which varies from country to country, there are two aspects to industrial relations in every country: cooperation and opposition. One aspect concerns the relationship between management and employees, and the other concerns the relationship between management and the labor union. (Fujibayashi, a distinguished researcher of industrial relations in Japan, called the former "primary relations" and the latter "secondary relations". Fujibayashi, 1963, pp. 8–14)

1. Peculiarities of Japanese Industrial Relations

If these two types of relations are clearly distinguished and separated by enterprises, they contribute to the stabilization of industrial relations. But sometimes industrial relations are stable even when these two relations are intermingled and inseparable. In this respect, the organizational structure mentioned above is the key to the issue. In the Western countries which are adopted for comparison in this paper, most labor unions are craft unions, industrial unions or general unions, organized beyond the framework of the company, and covering the whole industry or occupational type. In these labor unions organized by members from different companies, labor vs. management opposition is strong. With trade unions, the ties between labor and management are intrinsically more distant than in enterprise unions where all the members belong to the same firm.

2. Ambiguous Boundary

In the case of enterprise unions in Japan, the boundary between confrontation and cooperation is ambiguous. In this regard, Fujibayashi remarks:

> The labor-management relationship in Japan, especially with regard to that between an enterprise union and the management, is often ambiguous. There are two basic types of relations: antagonistic and non-antagonistic, and these primary and secondary relationships are undeniably indivisible and peculiarly mingled. It is absolutely impossible in Japan to strictly distinguish between the primary relationship, which assumes, in principle, cooperation between employees and management and the secondary relationship, which is based on collective bargaining, or conflict of interests between both parties, as in the U.S. and European countries. This feature characterizes industrial relations in Japan. (Fujibayashi, 1963, p. 37)

So what factors have led to these peculiarities of industrial relations in Japan? Before the Meiji Restoration, the present form of industrial relations did not exist and industrial relations gradually evolved over the succeeding 120 years of industrial development. At the end of the last century, an iron workers' union was organized, the first modern-type labor union. The prewar period saw a series of violent labor disputes and merciless oppression. In the postwar period, labor unions took up where they left off, and there were again repeated disputes until the 1960s. These often bloody encounters were far from the ideal of "cooperative" industrial relations.

Given this history, many observers would be confused and surprised to see the transformation in values which took place within only ten years after the oil crises. How shall we interpret this situation given the special features of industrial relations and management in Japan, which were once thought anachronistic, but which are now viewed as trend setting?

3. Hypotheses for Interpretation

The author would like to postulate the following hypotheses for understanding Japanese industrial relations[1]:

(1) Unintended Consequences

Given the historical background, the decisive factor in establishing the present system of industrial relations in Japan was defeat in World War II and the subsequent

miraculous economic recovery and development. When World War II ended, Japan was devastated. There was a complete destruction of industrial facilities, a large number of unemployed, starvation level wages, and a shortage of everything including food, clothes and houses. Per-capita income was far below the level of some countries currently listed among the developing countries.

A summary of a statement by the late Theodore White, a respected American journalist, elucidates the consequences of transformations in the industrial climate:

> Today, 40 years after the end of World War II, the Japanese are on the move again in one of history's most brilliant commercial offensives, as they go about dismantling American industry. Whether they are still only smart, or have finally learned to be wiser than we, will be tested in the next 10 years. Only then we will know who finally won the war (White 1985).

The New York Times Magazine

Today, 40 years after the end of World War II, the Japanese are on the move again in one of history's most brilliant commercial offensives, as they go about dismantling American industry. Whether they are still only smart, or have finally learned to be wiser than we, will be tested in the next 10 years. Only then will we know who finally won the war...

Theodore H. White:
THE DANGER FROM JAPAN

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Although his article includes many misunderstandings and prejudices, there is some truth concerning Japan's resurgence. In other words, defeat in World War II unexpectedly allowed Japan to make a quantum leap in development, since the War destroyed most of the social and economic systems constructed in the prewar period. A level of equality with few parallels in the world could be realized in the whole of society (as well as in its constituent parts, business organizations, though with some limits) with the support of the democratization policy of the Occupation Forces following World War II. Differentiation in treatment of blue-collar and white-collar workers, which was absolute before the War, was reduced to a considerable extent. For instance, the difference in salary (wages) between executives and ordinary employees is now one of the lowest levels among industrialized countries. The labor unions were reborn in this process, becoming one of the forces for democratic development.

Since World War II broke the thread of continuity with the prewar period, the development of networks of "special interest groups" (Olson, 1982) such as labor unions, financial cliques and other corporate or cartel-like organizations, is at a lower level than in the other developed countries which won World War II. The greater flexibility of these organizations vis-à-vis their Western counterparts enabled Japan to adapt more quickly and effectively to rapid changes in the external and internal environment. There was little opposition to the removal or renovation of traditional structures from a people living in a devastated country. The introduction of new plant and equipment also progressed rapidly. Of course, the social and economic institutions solidified to a certain extent in some aspects in the decades after World War II, but the level of inflexibility is far lower than in other developed countries. Since the Meiji Restoration, Japan has always enjoyed the advantages of being a late-developed capitalist country (Dore, 1971).

(2) Homogeneous Structure

Regarding the management organization that emerged in this process, the social and economic homogeneity of management and employees is a distinctive feature compared to other countries. This can never be emphasized enough, since in countries where the class system developed over a long period of time, it seems to have extended into business organizations. Even in the large Japanese enterprises listed in the stock market, most of the top management have been promoted to their present positions from the level of ordinary employees. It can be said, in other words, that the final career goal of employees is to reach top management. For employees who aim at a managerial position, participation in the labor union is one of the routes to this goal, especially so for white-collar workers.

The relations between stockholders, management and employees are also far different from those in Western countries, where the orthodox enterprise concept prevails. In the case of joint stock companies, for example, most of the top management staff (board directors) in Japan do not directly represent stockholders or financiers. In fact, there is an unbridgeable gulf between them. Workers and top management are not mere mercenaries recruited from the market to realize the interests of the stockholder group, as assumed in the neoclassical theory of the firm, prevailing in the orthodox enterprise concept.

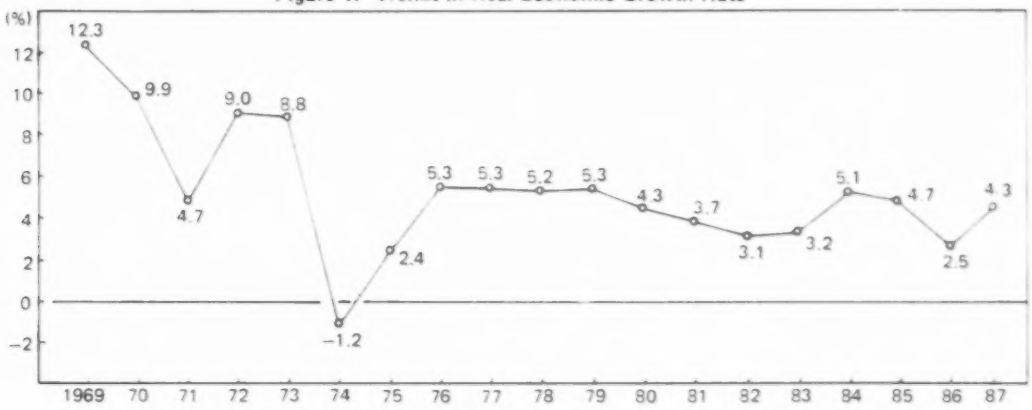
(3) Business Community of Management and Labor

The Japanese enterprise characterized above should be called a "business community maintained by labor and management", rather than a "capitalistic enterprise", in which the sovereign power of stockholders is predominant. It has features similar to, or even identical to, the employee-owned or managed enterprise now being tested in various ways in Western countries (Kuwahara, 1988), where em-

ployees or ex-employee executives are the mainstay of management. It is, however universally true in enterprises with sovereign stockholders and labor-management antagonism, in employee-managed firms, as well as in Japanese firms, that the criteria for who becomes a manager and who is managed is primarily a matter of practical and functional reasons such as business experience and expertise. But what goes on behind the scenes is totally different.[2)]

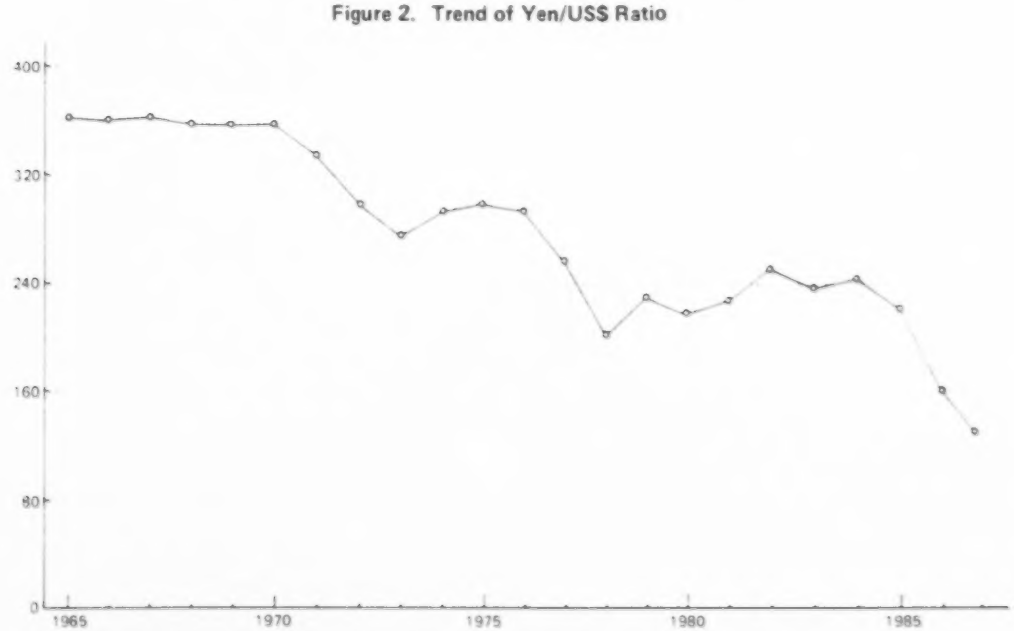
Suppose that the Japanese firm is very similar to, if not identical to, the employee managed firm, the paradigm in considering industrial relations or the labor union will be quite different. In fact, rank-and-file employees, or members of the labor union, can now be promoted to top management, and the distinction between workers and managers blurs. The interrelationships between labor and management, or their homogeneity, redefine the role of labor unions, which are organizations traditionally operating in opposition to management, and it is critical that they adjust to the demands of this new role or lose their raison d'etre. The problems faced by enterprise unions in Japan today can be attributed to the ongoing redefinition and development of a role appropriate to the emerging paradigm of industrial relations.

Figure 1. Trends in Real Economic Growth Rate



Source: Economic Planning Agency: *Survey on National Income.*

Figure 2. Trend of Yen/US$ Ratio



Source: Bank of Japan: *Comparative International Statistics, 1988*

(4) Global Competition and the Needs for Flexibility

The need for flexibility in the face of growing international competition is characteristic of the global trading system which has emerged since World War II. Over the years the pressures for and advantages of flexibility have pronounced following the oil crisis of 1973 and the subsequent period of low growth experienced in Japan.

The change in the trend of economic growth rates in Japan reflects the shift in challenges facing Japan and the context in which they are being confronted (Figure 1).

After the high growth rates in the first-half of the 1970s, Japan experienced a sudden decline in its growth rate in 1974 as a result of the first oil crisis. Subsequently, the trend of lower growth rates has continued to the present day.

Despite lower economic growth, the appreciation of the yen against the US dollar has continued from the beginning of the 1970s (Figure 2).

The labor market has undergone substantial change, too. The unemployment rate has gradually gone up after the first oil crisis. During the high growth era of the 1960s, the rate was about 1.2%, but it increased to 2.8% by 1986.

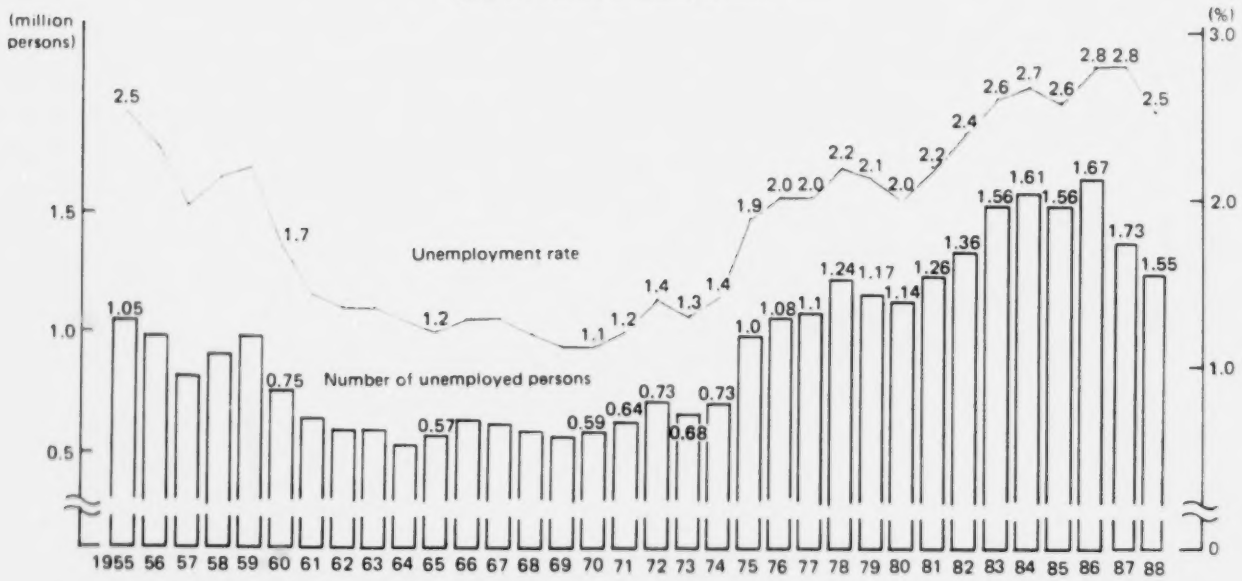
Looking at things from a different point of view, the recession in the world economy caused by the first oil crisis through the late 1970s was a process in which regional or national market economies were united into a global market economy in the true sense of the term. Intensified competition among enterprises made boundaries between countries and regions less important. Investment in plant and equipment made in one corner of the globe has an impact in other parts of the world in a few days. As a consequence of heightened international competition, employees became increasingly concerned for, and loyal to, their companies, devoting their energies towards ensuring the continued survival and development of the company amidst the new challenges. This loyalty to the firm, and the desire to ensure employment security, came to dominate workers' attitudes, reinforced by the prolonged era of slow growth.

On the other hand, the management needs to maintain a flexible organizational structure to cope with the rapidly changing market situation. This is the reason why most enterprises tried to streamline their personnel structure in the recession after the oil crises by decreasing the number of permanent staff (regular employees) and enlarging the size of the flexible workforce of part-timers or workers temporarily dispatched from an agent. From the viewpoint of the permanent staff, the flexible labor force, which is the first area from which jobs are cut, is insurance for their continued employment. For this reason, labor unions organized by regular employees are generally acquiescent, devoting little effort to organizing these nonregular workers in the marginal areas.[3]

(5) Adaptability in Competitive Markets

Finally, the author would like to draw attention to the fact that the specific features of the industrial relations system of Japan are ahead of their time, though this is not explicitly recognized as such by either participants or observers, and are particularly well suited to the struggle for existence in the competitive global market. Due to the defeat in World War II, Japan could make a quantum leap

Figure 3. Trends in Unemployment



Source: Bureau of Statistics, Management and Coordination Agency, *Labor Force Survey*.
Note: Unemployment rate : the totally unemployed/labor force X 100.

in development over the advanced countries, acquiring the necessary features for the modern era, which enabled it to take the lead over an unexpected twist of history.

This should not be construed to mean that the management system or industrial relations of Japan lead to superiority over other countries in terms of working conditions, worker's living standards, etc. For example, working hours are longer in Japan than in other advanced countries. The gain made by Japan, then, is merely to have acquired adaptability in the global market earlier than its competitors.

(6) Transformation of the Paradigm of Industrial Relations

There is also a view that the changes in industrial relations in Japan now taking place embody, in various aspects, the transformation of the paradigm for the coming era, in which the industrial stage of development gives way to the service and information economy (Dore, 1987). The development of the service economy leads to consumers requiring more diversified and frequently changing products, necessitating that suppliers duly respond. The lot sizes for supply are also different from those required by the mass production economy, where scale is important. Simply supplying a few different items in mass quantity, a basic concept of the industrialized age, is now no longer adequate. The units of supply and demand are diversifying and fragmenting. These changes now occurring in enterprises and industries must affect industrial relations.

Now, to what degree do these observations help in understanding industrial relations in Japan? The following presents an analysis of the present status and a description of the historical development of labor relations in Japan.

Chapter III Changing Industrial Relations in Japan

There are several reasons why industrial relations in Japan is attracting worldwide attention, most notably the inherent adaptability to change and the high level of cooperation between labor and management. Now that competition has expanded to a global scale, if labor and management are in opposition or in conflict, efficiency and competitiveness of the enterprise will be damaged. A good working relationship between labor and management confers a number of advantages.

For example, adapting to technological innovation, the dynamic motive power of the present society, and promoting its early introduction by labor and management, effectively contribute to the maintenance of competitiveness and development of the enterprise.

Undeniably, there is a spirit of cooperation between the two parties in the substratum of industrial relations in Japan, in contrast to the situation in the U.S. and European countries, where the foundation of industrial relations is basically antagonistic. There are scores of scales for measurement of cooperation, such as the frequency of disputes, the approach to internationalization and technological innovation, etc., and by any measure labor-management cooperation is strongest in Japan.

1. Cooperation of Labor and Management

(1) The History of Labor Disputes: the Turbulent Years, the 1950s–60s

There are different opinions about cooperation in industrial relations in Japan, as explained above. Just after World War II, there was violent conflict over issues such as workers' control of production, and the labor movement escalated its action year by year until the banning by General McArthur of the general strike which had been scheduled for February 1, 1947. With the collapse of the general strike, the revolutionary labor movement also collapsed. In its place, pragmatism, manifested in the pursuit of economic restoration, gradually took over within the framework of the ideas of liberal democracy and social democracy envisaged in the new constitution of Japan.

The National Public Service Law and the Public Corporation and National Enterprise Labor Relations Law were passed in the Diet under the second Yoshida Cabinet in 1948. The former banned collective bargaining and disputes by government officials, while the latter established two public corporations, Japanese National Railways and Japan Monopoly Public Corporation, whose employees were permitted to engage in collective bargaining, although strikes were banned. Later, three Corporations (Japanese National Railways, Japan Monopoly Public Corporation and Nippon Telegraph and Telephone Public Corporation) and five national enterprises were regulated by this law. However, instances of radical unionism persisted. The strikes staged by Densan (Electric Power Industry Union) and Tanro (Japan Coal Miners' Union), two of the leading unions of Sohyo (General Council of Trade Unions of Japan) drew public attention due to their vehemence. Similar disputes also took place in large enterprises such as Nissan Motor, Omi Kenshi, Amagasaki Seiko-sho, Muroran Workshop of the Japan Steel Works, Ltd., Oji Paper Co., Ltd., Mitsui Mining Co., Ltd., etc.

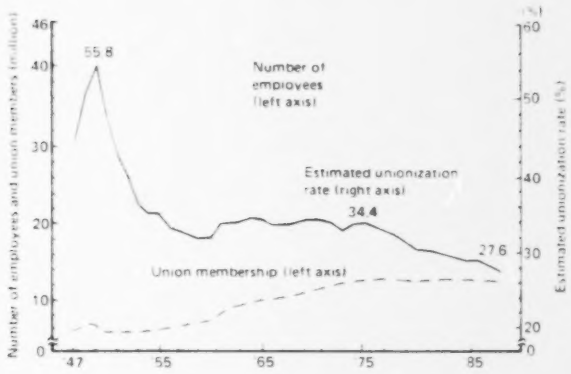
However, the number of labor disputes on the scale mentioned above gradually decreased through the middle of the 1960s. In most cases, the disputes ended in the defeat and split of labor unions, typically as a result of the emergence of a rival union. Indeed, if a dispute was becoming serious, a corporate defense strategy was quickly implemented to organize a rival union (often called the second-union) as a means to terminate the conflict. These disorderly labor-management relations often left deep scars on relations between the two parties for a long period after the resolution of the dispute. Labor and management learned a bitter lesson from their experience: not to engage in self-defeating and futile confrontation.

(2) The History of Labor Unions: Withering Away of Strikes

After the first oil crisis, the number of labor disputes (those accompanying acts of dispute) steadily decreased. 253,000 mandays were lost in 1986, the lowest in the postwar period. Using mandays lost as a scale of measurement, the degree of cooperation between labor and management and the internalization of industrial relations in the company have strengthened year by year.

Despite the complete destruction of the industrial

Figure 4. Trends in Number of Employees, Union Membership and Estimated Unionization Rate

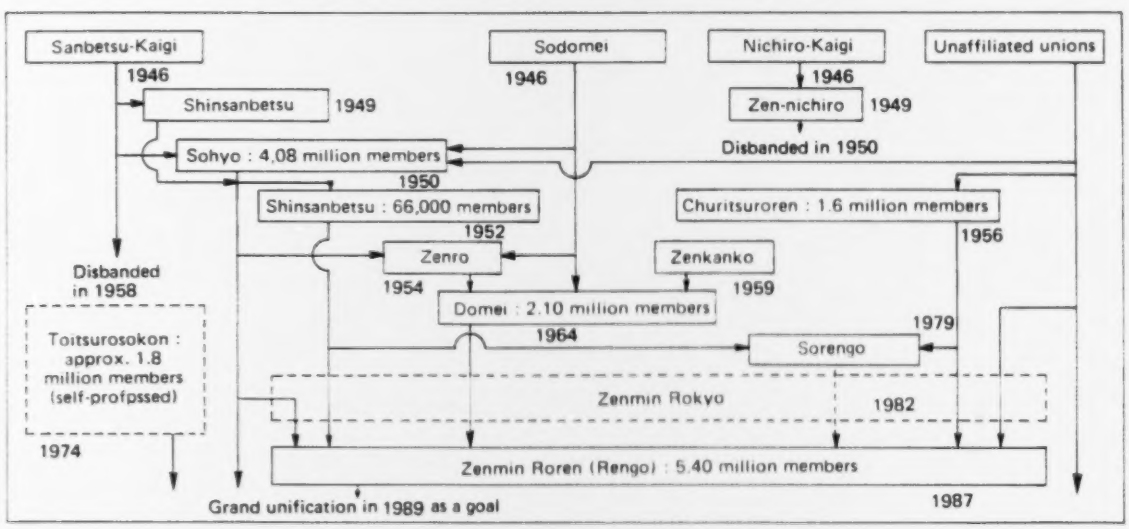


structure during World War II, unionism in Japan was rebuilt from scratch after World War II, and spread like wildfire to recover to the prewar level of organized workers in only four months (Figure 4).

In 1949, after the establishment of Sohyo (General Council of Trade Unions of Japan), as many as 6.6 million workers representing a union density of 56%, were organized into labor unions. The union organizations steadily expanded, with some ebb and flow, during the 1960s, in spite of the setback suffered with the prohibition of the general strike on February 1,1947. By the middle of the 1970s, however, there was a sharp turnaround in union density. It sank below 30% in 1983, the year before Zenmin Rokyo (Japanese Private Sector Trade Union Council) was organized, and further down to 27.6% in 1987 (Figure 4).

The number of workers organized into unions in 1987 was 12.27 million, a decrease of 71,000 from the previous year. Reflecting the development of the service economy, the number of union members increased in the areas of finance, insurance, real estate, wholesale, retail and restaurants, while it decreased in industries such as trans-

Figure 5. A Chronological Trend of Union Amalgamation



Source: The Japan Institute of Labour *Japan Labor Bulletin, February 1988*
Notes: Numbers of union members are based on the January 1986 survey by the Ministry of Labor
Sanbetsu-Kaigi: Congress of Industrial Unions of Japan
Sodomei: Japanese Federation of Trade Unions
Nichiro-Kaigi: Japanese Congress of Labor Unions
Shinsanbetsu: National Federation of Industrial Organizations
Zen-nichiro: Japanese Federation of Labor
Sohyo: General Council of Trade Unions of Japan
Churitsuroren: Federation of Independent Unions of Japan
Zenkanko: National Council of Government and Public Corporation Workers' Unions
Zenro: Japanese Trade Union Congress
Toitsurosokon: Conference of Trade Unions for Promotion of a United Front
Domei: Japanese Confederation of Labor
Sorengo: National Federation of Trade Unions of Japan
Zenmin Rokyo: Japanese Private Sector Trade Union Council
Zenmin Roren: Japanese Private Sector Trade Union Confederation

portation, telecommunications and manufacturing (Ministry of Labor, 1987).

(3) Complex Reasons for Declining Union Density

The reasons for the decrease of union density are complex. There are several major factors.

1) The enterprise unions in Japan were traditionally based in manufacturing industry, particularly in large enterprises. Since most labor unions have a union-shop clause policy, they can effortlessly expand union membership with the growing enterprise as the number of employees increases. The expansion of the business activities of Japanese enterprises during the period of rapid economic development in the 1960s, therefore, automatically increased the number of union members. In the recession after the oil crisis, on the other hand, the streamlining of personnel centered on manufacturing industry, where union density was high. The management policy was to reduce the number of regular employees, and fill the gap with temporary workers, part-timers, etc., who were not unionized. In particular, the trend led to the employment of more female workers.

2) The development of the service economy made the positions of service industries such as wholesale and retail, catering, and other personal service businesses more important, and overall union density had to drop. Generally, the size of establishments in these areas is smaller, which is an additional factor contributing to the decline in union density. Unionization of small-scale establishments is inefficient from the perspective of union organizers, so they cannot be expected to contribute much to union density.

3) The middle-class consciousness now spreading among workers is another reason for the loss of enthusiasm for the union movement. This lack of interest in union activities will continue in the future, further reduce the strength and role of labor unions. This phenomenon is common to several advanced countries. The establishment of Rengo (Japanese Private Sector Trade Union Confederation) in November 1987 was an attempt to turn back the tide by gathering the strength of unions together within one organization (Figure 5).

(4) Rising Trend for Cooperation

Why is the labor union movement on the downswing and 'cooperation' on the upswing?

At least in terms of the political policies of Japan there is no iron-fisted antiunionism of the kind often seen in the governments of Prime Minister Thatcher of the U.K. and the Reagan era in the U.S. Neither does anti-unionism exist in the public consciousness of Japan. Nevertheless, unionization and the number of labor disputes have both been steadily declining. With regard to this phenomenon, another viewpoint might be addressed: That is, the cooperative relationship between labor and management in Japan is mere make-believe, a result of division and appeasement of the labor unions by capitalists. How, then, can the superb performance in enterprises at the micro level be explained? Are workers living in a state of oppressive competition at the mercy of the exploiters? Can they make so many voluntary improvements and proposals about their jobs, devote themselves to long hours of overtime, and maintain such a high morale over such a long period in a coercive management framework? It is important to bear in mind the hypothesis articulated in the beginning of this paper when discussing these issues.

2. Rapid Adaptation to Technological Change

In view of heightened international cooperation, the rapidity of adaptation to new technologies is critical. Now that new technology is the wellspring of competitiveness, delay or failure to introduce technology can fatally damage both labor and management.

Labor and management must cooperate under these circumstances, because competitiveness will suffer from the delays coming from confrontation. Moreover, if the speed and scope of the introduction of new technology is restricted at the enterprise or the grass-roots level, the accumulated adverse effect at the macro-economic level will eventually become apparent (Kuwahara, 1985).

It is usually management which initiates the introduction of new technology. Generally, such changes are management's prerogative. They decide about the introduction of new technology based on the various sources of information: R & D of their companies, development in machinery industries, and so forth. Often these technological changes take the shape of plant and equipment (Figure 6).

The impact of new technology on employment varies by the type of production function. When there is little change in the capital-labor ratio or production function, influences on employment are limited. Only some types of jobs may be affected. If there is a large increase in the capital-labor ratio, a large amount of surplus labor may be generated, if there is no upward shift in the production function.

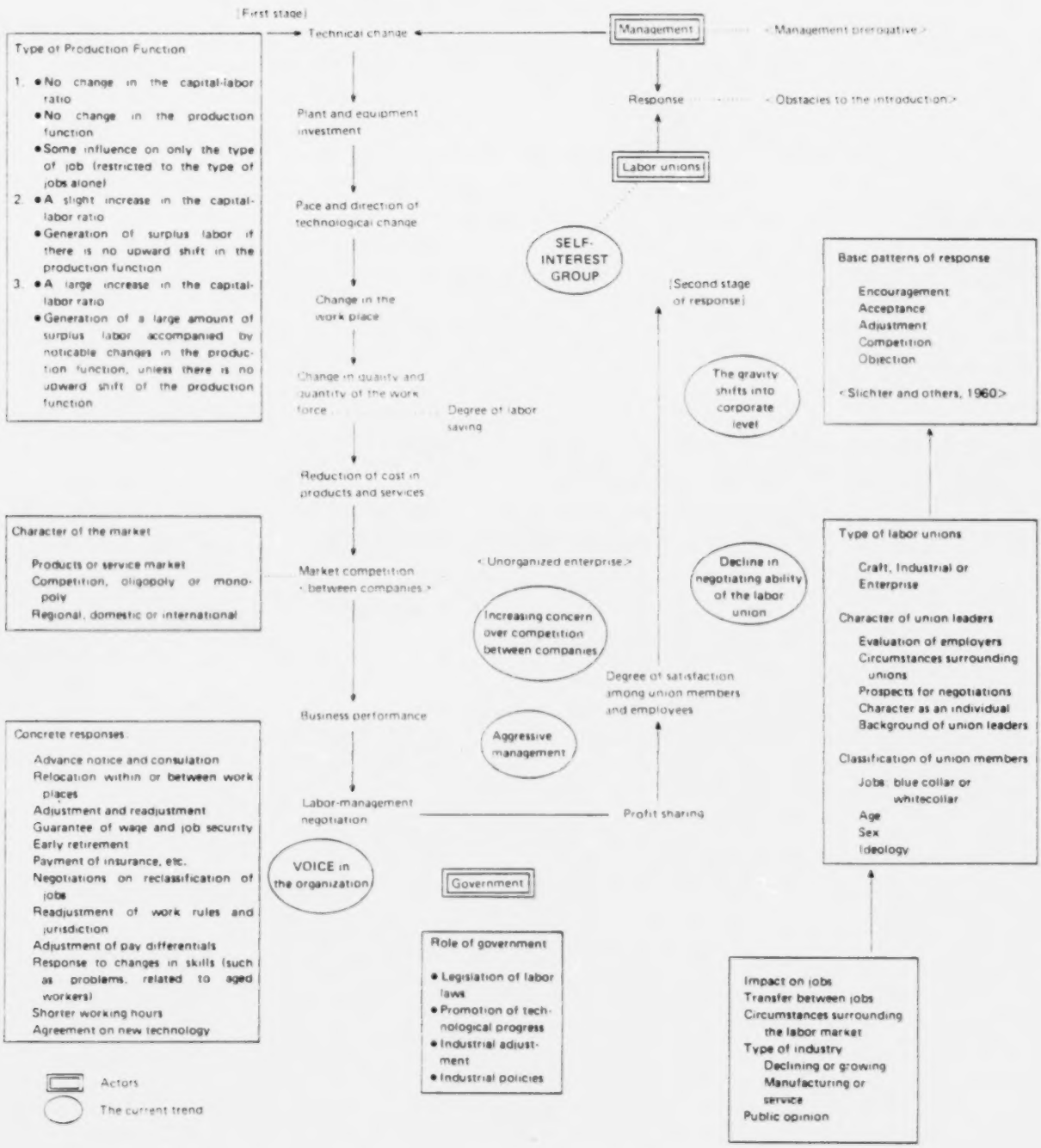
Rates and directions of technological change are influenced by various factors such as the responses of labor unions, character of technology, etc. Irrespective of the character of technology, new equipment or plant facilities bring about changes in quality and quantity of the workforce by generating changes in labor demand and job categories. Usually the introduction of new technology leads to some degree of labor saving in the workplace.

If new technology generates expected results, e.g. cost reduction, productivity improvement, etc., these advantages will contribute to the improvement of the firm's performance in the market, other conditions being equal. In today's competitive market climate, employers as well as employees and union members are increasingly concerned about the relative position of their firms compared with their competitors.

In contract discussion, labor and management negotiate

Figure 6. Technological Innovation and Industrial Relations

THE INNOVATIVE CYCLE


[First stage]
Technical change
Management
< Management prerogative >
Response
< Obstacles to the introduction >
Labor unions
Type of Production Function
1. • No change in the capital-labor ratio
• No change in the production function
• Some influence on only the type of job (restricted to the type of jobs alone)
2. • A slight increase in the capital-labor ratio
• Generation of surplus labor if there is no upward shift in the production function
3. • A large increase in the capital-labor ratio
• Generation of a large amount of surplus labor accompanied by noticable changes in the production function, unless there is no upward shift of the production function
Plant and equipment investment
Pace and direction of technological change
Change in the work place
Change in quality and quantity of the work force
Degree of labor saving
Reduction of cost in products and services
SELF-INTEREST GROUP
[Second stage of response]
The gravity shifts into corporate level
Basic patterns of response
Encouragement
Acceptance
Adjustment
Competition
Objection
< Slichter and others, 1960 >
Character of the market
Products or service market
Competition, oligopoly or monopoly
Regional, domestic or international
Market competition
< between companies >
< Unorganized enterprise >
Increasing concern over competition between companies
Decline in negotiating ability of the labor union
Type of labor unions
Craft, Industrial or Enterprise
Character of union leaders
Evaluation of employers
Circumstances surrounding unions
Prospects for negotiations
Character as an individual
Background of union leaders
Classification of union members
Jobs: blue collar or whitecollar
Age
Sex
Ideology
Degree of satisfaction among union members and employees
Business performance
Aggressive management
Concrete responses
Advance notice and consulation
Relocation within or between work places
Adjustment and readjustment
Guarantee of wage and job security
Early retirement
Payment of insurance, etc.
Negotiations on reclassification of jobs
Readjustment of work rules and jurisdiction
Adjustment of pay differentials
Response to changes in skills (such as problems related to aged workers)
Shorter working hours
Agreement on new technology
Labor-management negotiation
Profit sharing
VOICE in the organization
Government
Role of government
• Legislation of labor laws
• Promotion of technological progress
• Industrial adjustment
• Industrial policies
Impact on jobs
Transfer between jobs
Circumstances surrounding the labor market
Type of industry
Declining or growing
Manufacturing or service
Public opinion
Actors
The current trend

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over profit-sharing. Various requests and responses emerge in this process. If union members as well as employees are satisfied with the results, this experience will be reflected in the second-stage of labor-management relations. In other words, unions or employees will be more favorably disposed toward new technology based on the achievement of the first-stage, i.e. successful responses and achievement toward new technology. This may be called an initiation of 'the innovative cycle.' If the first-stage of this cycle is satisfactory, the second one will be easier to achieve. The innovative cycle will be built in.

Throughout the process, various other factors including types of labor unions, character of union leaders and members affect the results. If unions are organized on craft or industrial lines, they have to expect more conflict as compared with enterprise unions which find more interest in maintaining the mutual interest of labor and management. Enterprise unions are better suited for fostering the innovative cycle at the firm.

However, the innovative cycle is not always introduced into every industry or firm. In some firms, although they are aware that new technology is the strategic factor for maintaining their competitiveness, various factors such as financial difficulties, poor R & D performance, slack market demand, etc., hamper the introduction, leading to a further decline, termed a 'declining cycle.'

Chapter IV
Corporate Structure and Industrial Relations

One model for analyzing industrial relations assumes, either tacitly or explicitly, that workers are in opposition to capitalism and that workers and management are recruited from the market to serve the interests of the capitalist stockholders. It is argued that workers can improve their weak position against the capitalists only by uniting into a single unit or, in other words, by creating a supply monopoly in the labor market.

It is, however, extremely difficult to explain the current state of industrial relations in Japan in such terms. Moreover, it is difficult to imagine industrial relations relapsing into the barren state where labor and management are in absolute opposition, as was seen at the dawn of Japanese capitalism. In actuality, workers are becoming more and more involved in the ethos and dynamism of capitalistic enterprises.

1. Organized Workers in Large Enterprise

(1) Difference in Corporate Structure

In Japanese enterprises, especially in joint-stock companies, which constitute the mainstream of business, managers (board directors) are not merely agents representing the interests of stockholders or financiers. Of course, however, stockholders do own the company as a simple matter of corporate law. Most of the management have climbed up the company promotion ladder from the rank and file level to reach their present positions, formerly serving as ordinary employees. Upward mobility is the norm for Japanese employees, bolstering morale while also cementing ties between workers and managers. The dissolution of the "zaibatsu", the big financial combines, after World War II, played a vital role in constituting this system by instantly dismissing a large number of financiers while retaining management and workers alone. Quite a few prewar management personnel were purged, and middle class managers were, as a result, promoted to the top in most enterprises. In a large company which had existed from the prewar days, for example, even the president and other executive members were balloted by the employees (Sato, 1988).

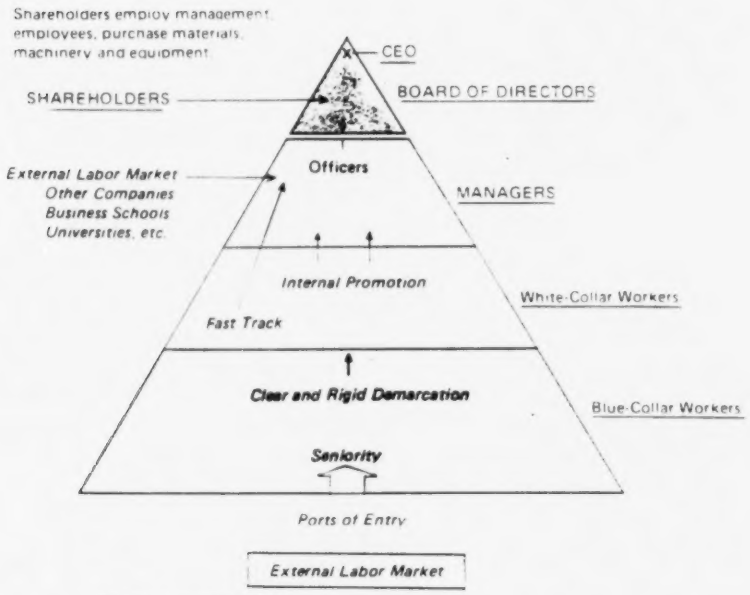
In this context, we can see that management plays the role of referee between the employees and the stockholders rather than acting as servants of the financiers (Aoki, 1984, p. 116). This special property of the structure of enterprises in Japan is typically displayed by the fact that there are often executives cum employees with titles like "Executive Manager, Head of XYZ Division". These people instinctively put more weight on the interests of the enterprise community consisting of executive members and employees than on protecting the interests of the stockholders.

(2) Continuous Path of Promotion

Concerning the basic structure of the enterprise community as explained above, substantial social and economic barriers separating workers from management do not exist within the enterprise. Both sides belong to the same social stratum. Levels of income are continuous, an equality rarely seen in other countries. Most employees have at least some possibility of promotion to higher management and even to top management. The limited number of management positions inevitably leads to severe competition among the employees in the lifetime employment system. Even a very minor advantage over employees of the same rank in the same job is important for promotion. Competition for these tiny distinctions starts even before joining a company, and includes the acquisition of a better academic background.

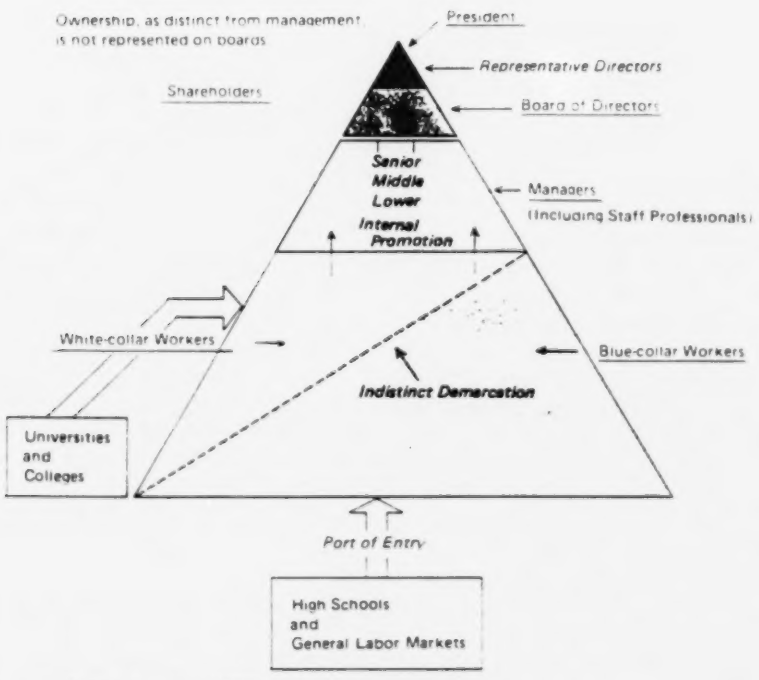
Being selected for top management is almost the final passage in the promotion race within the enterprise. The nomination of personnel who shall be entrusted with the responsibility of the operation of the company is made with extreme deliberation, and judging whether a person can win the respect and support of employees cannot be done quickly. The positions of the highest ranks of management are, therefore, filled by those who have successfully passed a series of selections and trials in a variety of events over an extended period. This is the major difference between Japanese executives and executives dispatched as the representatives of stockholders or sometimes those who have little practical experience as found in many Western corporations.

Figure 7. A Typical Model of a Large North-American Company



Source: Kuwahara (1988)

Figure 8. A Typical Model of a Large Japanese Company



Source: Kuwahara (1988)

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The increasing number of white-collar workers in the developing service economy, in relative as well as absolute terms, enlarged the reserve of potential management staff. The limited number of positions and the blurring of white- and blue-collar distinctions means that white-collar staff can no longer rely on continuous promotion. These features, along with the increasing number of older employees, will further intensify the competition for selection for management positions within enterprises.

As long as the fundamental characteristics of the Japanese enterprise are inclined to the interest of the employees rather than of the stockholders, business performance is directed to the survival and growth of the enterprise in the medium and long term. But top Japanese executives who were promoted from the employees pool, called "salaried directors", will also pay due consideration to short-term results, since a poor performance in their term of service will bring dishonor on them. However, they are never displaced immediately after a poor performance as in enterprises in the U.S.

As the major concerns of the management and employees are in the growth of their enterprise, the interests of labor and management are automatically joined in the enterprise. Their remuneration and other working conditions are closely related to the performance of the company where they work. While paying due attention to competing companies in the same industry, employees pay strong attention to the performance of their company. Unless an adverse effect such as redundancy is expected, labor unions are cooperative about the introduction of new technology. Employees know by experience that the introduction of new technology has every possibility of improving business performance.

(3) Firm-Specific Training

Predictably, the training required by firms has gradually taken on characteristics specific to each. In addition, research and development (R & D) activities, once called "the area where the hands of God have not reached yet" (J. Schumpeter), is now the most important domain in business strategy, determining whether the enterprise will sink or swim. For this reason, R & D activities are heavily promoted within enterprises. However, development of computer technology and its diffusion may increase the needs of skills which are less firm specific.[4]

Regarding wage determination, the spot type of decision that directly reflects the supply and demand situation in the labor market is made only at "the port of entry", or, in other words, at the initial level for each new employee. As the skills of employees improve in the directions required by the enterprise, their wage levels increase according to the firm-specific careers they are following. Because of market forces within the product market, wage contours are comparable for different enterprises of around the same size in the same industry, but the final decision about wages is made within each enterprise. (Part-timers and other temporary workers who are outside the scope of this pay and employment system are referred to later.)

(4) Built-in Wage-Profit System

Furthermore, the bonus system, which involves regular additional pay, is a system for distributing profits to workers on the condition that workers positively participate in and contribute to the enterprise's activities. It should be noted that this system is drawing attention from the rest of the world as a type of "share system" or "wage-profit system", which makes transparent to some degree the relationship between the performance of the enterprise and the employees voluntary participation and contribution to the enterprise's activities (for example, Weitzman, 1984).

Under the circumstances outlined above, an enterprise union for negotiating with management is a mixture of white- and blue-collar regular employees, or "shain". The Japanese term "shain" has the connotation of unity with the company, and it cannot be translated adequately. In other words, the term doesn't just mean "company employee", but implies a member of a community of people sharing deep common interests. The labor unions of Japan, therefore, have a strong feeling of being organized groups of workers belonging to a single enterprise, rather than serving as organizations uniting workers within particular skills. In this way, the negotiating ground has shifted in a large part from the market to the enterprise.

(5) Transit Members of Unions

Industrial relations characterized as above, can hardly be explained in terms of labor versus a management that serves as the representative of stockholders. Since labor unions are based in individual companies, most of the members are "in transit". Union members (particularly white-collar workers) will climb the steps of the corporate ladder, and some day transfer to management, saying farewell to the union. It is ubiquitous in Japan that employees who were members of labor unions when they were young, have been promoted to the rank of manager or management executive. The homogeneity of the management and employees in society is symbolized by this phenomenon, which is fundamentally different from the U.S. and European countries, where most union members are lifetime members. This tendency for workers to be promoted out of the union ranks is accelerating as the number of white-collar workers increases in the developing service economy.

Of course, not only enterprise-based unions, but industrial or craft organizations exist in Japan. In most cases, however, these horizontal organizations are confederations of enterprise unions in the same industries (Sanbetsu), except for a few horizontal organizations such as the All Japan Seamen's Union, and the pilot's union of Japan Airlines. Principally, discussions at the industry level also take place within an environment that takes account of the individual companies which are the home bases of representative and executive members of the organization.

Most of the executive members of these labor unions are full-time officers while simultaneously maintaining their status in their own enterprises. It is customary for the leaders to retire from the labor union when they retire from their companies.

If the upper organization opposes the intention of the enterprise unions or their members, cohesion will be lost, and the unions will gradually drift apart. This typically happens with regard to support of political parties. In contrast to the post-war reconstruction, the values of workers are now so diversified that one particular party chosen for support by the umbrella organization is not necessarily supported by all the union members under its umbrella. This is a difficult situation for umbrella organizations such as industrial confederations of unions and national centers.

With these problems in the background, the private sector labor unions of Japan were successfully consolidated in November 1987 when Rengo (Japanese Private Sector Trade Union Confederation) was formed from Zenminrokyo (Japanese Private Sector Trade Union Council). The latter organization had been launched in 1982 following the abolition of the old framework of the four labor groups: Sohyo (General Council of Trade Unions of Japan), Domei (Japanese Confederation of Labor), Churitsuroren (Federation of Independent Unions of Japan), and Shinsanbetsu (National Federation of Industrial Organization).

The initiative of the private sector in a political context has been to offer support to the Japan Socialist Party (JSP), the Clean Government Party and the Democratic Socialist Party, and this is opposed, as a matter of course, by leftists in the JSP and members of the Japan Communist Party (JCP). Confrontation between the JSP and JCP in recent years has made cooperation between activists in the labor movement who support either of these two parties impossible. Disenchantment with political parties is prevalent among ordinary union members. Those who do not support any political party are becoming increasingly prominent, particularly among the young workers in their teens or twenties. The newly formed Rengo was forced to adopt the policy of allowing individual member unions to choose their own political preference for the time being. (See "Our Course and Role", Zenminrokyo, 1986). In this age, when people's values are diversifying, relations between labor unions and political parties are at a turning point.

(6) Survival of Enterprise

The labor movement in Japan is based on enterprise unions, and cooperation in industrial relations will be further strengthened to ensure the survival of enterprises as competition intensifies. In other words, this means progressing with the times by adapting to survive in the increased competition of the global market, as described above. This is one of the reasons why industrial relations in Japan are a focus of interest in the world. There is, however, a risk that industrial relations based on enterprises and concentrate on narrow scope will fail through blind egoism which ignores everything but the survival of the enterprise or the labor-management community.

The future of the new upper organization, Rengo, depends on how it accommodates the individual interests of the member unions, overcomes the limits of its capabilities, and promotes the labor movement for workers in diverse industries. The key to eventual success will be individual workers. An upper organization which has lost grass-roots support from its members would be nothing more than a castle in the air. Can Rengo maintain and expand its organization? A thorny passage lies ahead. In discussing this problem, the following points should be taken into consideration.

2. Unorganized Workers and Their Industrial Relations

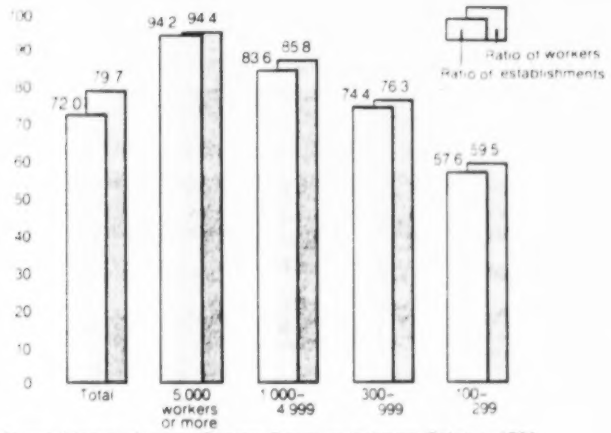
As we have discussed above, the players in labor-management relations have traditionally been management and the labor unions. It was assumed that, if labor unions had great leadership and a membership embracing many industries, working conditions established through the collective bargaining of the organized sector would gradually spread to unorganized labor, contributing to the improvement of working conditions in the entire labor force. With the weakened organizational structure of labor unions, however, the proportion of unorganized workers has become significantly larger, particularly among small and medium-sized enterprises.

(1) Streamlining of Organization

In the wake of the first oil crisis, enterprises adopted the personnel management policy of reducing by as much as possible the number of regular workers entailing fixed expenditures and requiring a guarantee of continued employment, while increasing the number of part-timers and temporary workers. Also popular was the movement to split large organizations or establish small-scale business units that employees can be transferred to, either as an operational strategy or as a personnel management policy.

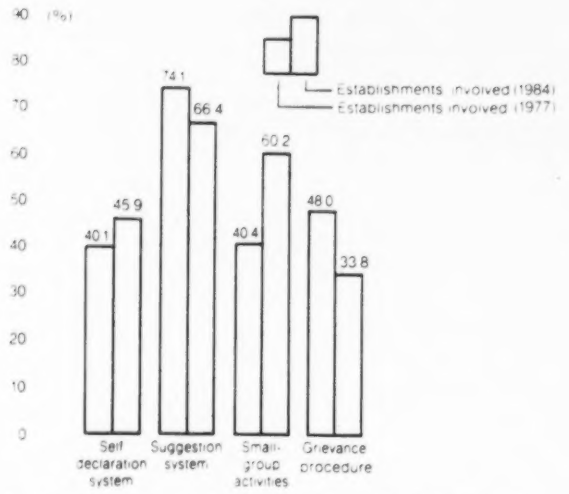
As the organized workforce contracted, lifetime employment, seniority-oriented wages and enterprise unions are no longer enjoyed by the majority of workers. Is it meaningful, then, to discuss overall industrial relations in the context of these practices? It is equally important to examine the significance of the traditional concept of industrial relations, which assumes the existence of labor unions and management[5]. In what direction will the paradigm of new industrial relations head?

Figure 9. Labor-Management Consultation Systems



Source: Ministry of Labor, ***General Survey on Industrial Relations, 1984***
Note: Establishments surveyed are of 100 employees or more

Figure 10. Labor-Management Communication Systems



Source: Ministry of Labor, ***General Survey on Industrial Relations, 1984***
Note: Establishments surveyed are of 100 employees or more

(2) Labor-Management Consultation System

It is critical to understand that channels for better mutual communication and consultations between labor and management exist even in enterprises without labor unions. The most typical system for that purpose is called the "labor-management consultation system". It is noteworthy that this system, which exists in more than 80 percent of organized enterprises, prevails to a such large extent even in non-unionized enterprises.

The major agenda for labor-management consultations are issues such as: management matters (operational policy and performance); production, plant and equipment (investment plans); production efficiency, including introduction of new technology; personnel affairs such as employment, transfer and criteria for the evaluation of merit; health/safety and welfare; social issues such as the prevention of pollution and public relations with the local population; and working conditions such as the wage system, working hours, holidays, the retirement system, interpretation and application of collective agreements, grievance procedure, and work rules.

Due to the underlying homogeneity of management and employees mentioned above, the consultation system has spread widely in enterprises in both formal and informal forms, in large-scale enterprises as well as in small- and medium-sized companies. The opportunity for employees to contribute to the agenda is also substantial. In most cases, the boundary between negotiations (collective bargaining) and consultation is not distinct, except in some large enterprises where the two are clearly defined. It is often the case that matters which began in consultation move at some stage eventually to negotiations.

(3) Employee-Managed Firms

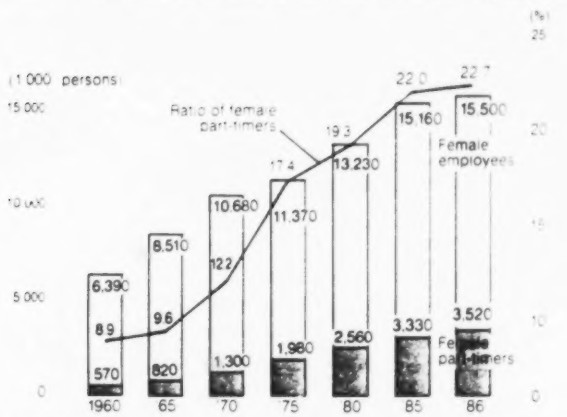
As we discussed above, enterprises in Japan are in many respects employee-managed enterprises, as opposed to their counterparts in Western countries, most of which have an adversarial management versus labor relationship and must cater to the stockholders. Given the fact that labor unions are increasingly becoming internal organizations of enterprises, and that various channels for consultation and communication exist even for unorganized workers, union organization per se is not critical, provided business operations are normal, and serious matters that would spark labor disputes do not arise. This is in sharp contrast to enterprises in the U.S. and major European countries, where stockholders exert strong control and decisions are made from the top down with perfunctory involvement by workers in developing policies.

Under these circumstances, one of the strategic choices labor unions can adopt at the enterprise level is to aim at creating a virtually employee-managed enterprise by strengthening and systematizing their role in management policies and by participating in management by acquiring stocks. This may also be possible even in enterprises where labor unions are not organized if a system of participation in management by representatives of employees (employee representation) or other similar measures are implemented.

What should be noted here is the fact that the number of employees who can take part in the decision-making of the employee-managed type of enterprise is limited. Only workers who are regular employees are permitted to do so. Nonregular employees (part-timers and temporary workers) are generally not involved as employee representatives. It should be noted that the number and ratio of these

peripheral workers have increased remarkably (Figure 11). Such secondary, peripheral personnel are always kept outside the inner circle of regular employees at the center of the enterprise, because the management believes that the role of these workers is to provide flexibility in adjusting to business cycle fluctuation, serving as a buffer for the core labor force. For these and other reasons, enterprise unions have not sought to enroll peripheral workers. It remains to be seen whether unions can adjust to changing labor market conditions and effectively involve the growing numbers of workers outside the core labor force.

Figure 11. Number of Female Part-Time Workers and Their Ratio to the Total Number of Female Employees



Source: Management and Coordination Agency, *Labor Force Survey*
Note: Female part-time workers are those whose working hours during the week surveyed are less than 35 hours.

(4) Small- and Medium-sized Enterprises

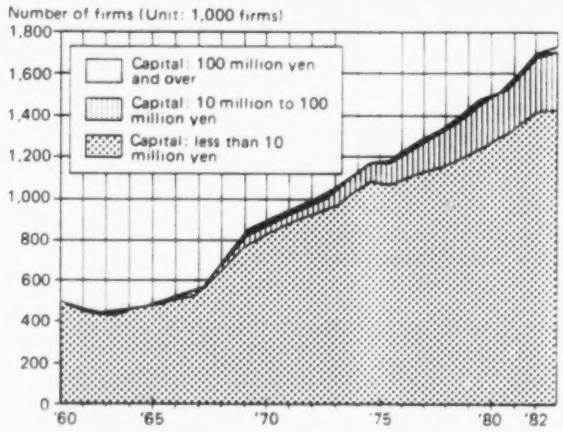
Unorganized workers are the overwhelming majority in small- and medium-sized companies. As of 1987, only 16% of employees in firms of less than 300 employees belonged to a union.

This fact alone may give the impression that these enterprises provide poor employment opportunities and are subject to exploitation by large enterprises. However, employment and working conditions are generally linked to market factors. The profit margins may be low among competing subcontractors, but the situation is far different in independent small- and medium-sized enterprises, some of which boast working conditions even better than those of large enterprises.

(5) Vital Independents

Small- and medium-sized enterprises have traditionally been regarded as stagnating and on the decline. On the contrary, however, they have played a vital role in providing employment opportunities in the era of slow growth since the mid-1970s. If we defined small- or medium-sized enterprises as those with less than 300 employees, this would account for more than 80% of the labor force. This figure didn't change much even during the recession, which means that these small enterprises provided stable employment opportunities. It is amazing that the number of small firms has shown a steady increase since the 1960s.

Figure 12. Trends in the Number of Firms by Capital Scale

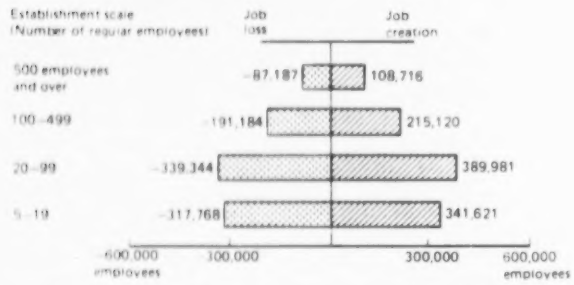


Source: Ministry of Finance, *Statistics on Corporate Firms.*

There are many types of small- and medium-sized enterprises, and their industrial relations are complicated, with specific features which are different from those of large enterprises. Few employment opportunities are created or made redundant by large enterprises. In contrast, a large number of companies are launched and folded every year as part of the dynamism of the small business sector. As a result of this dynamic change, the job opportunities generated outnumber those lost. It is also important to bear in mind that more jobs are being created in service industries rather than manufacturing. It is here that are proliferating. This aspect of small businesses, which has not attracted much attention in the past, should be given consideration from the viewpoint of generating stable employment opportunities (Kuwahara, 1987).

Although they are not in a majority nor famous, there are a large number of enterprises in minor business fields which are full of vitality and the entrepreneurial spirit. These companies are largely based on high technology and play an invigorating role in the small business sector. The older generation of business owners are making way and the younger entrepreneurs are taking over. The leadership of management is shifting from the company founders who began their careers as apprentices, or with some similar background, to their successors who are steeped in innovative ideas acquired during their university education. Sophisticated equipment, which once was only available to large enterprises, is now within the reach of small- and medium-

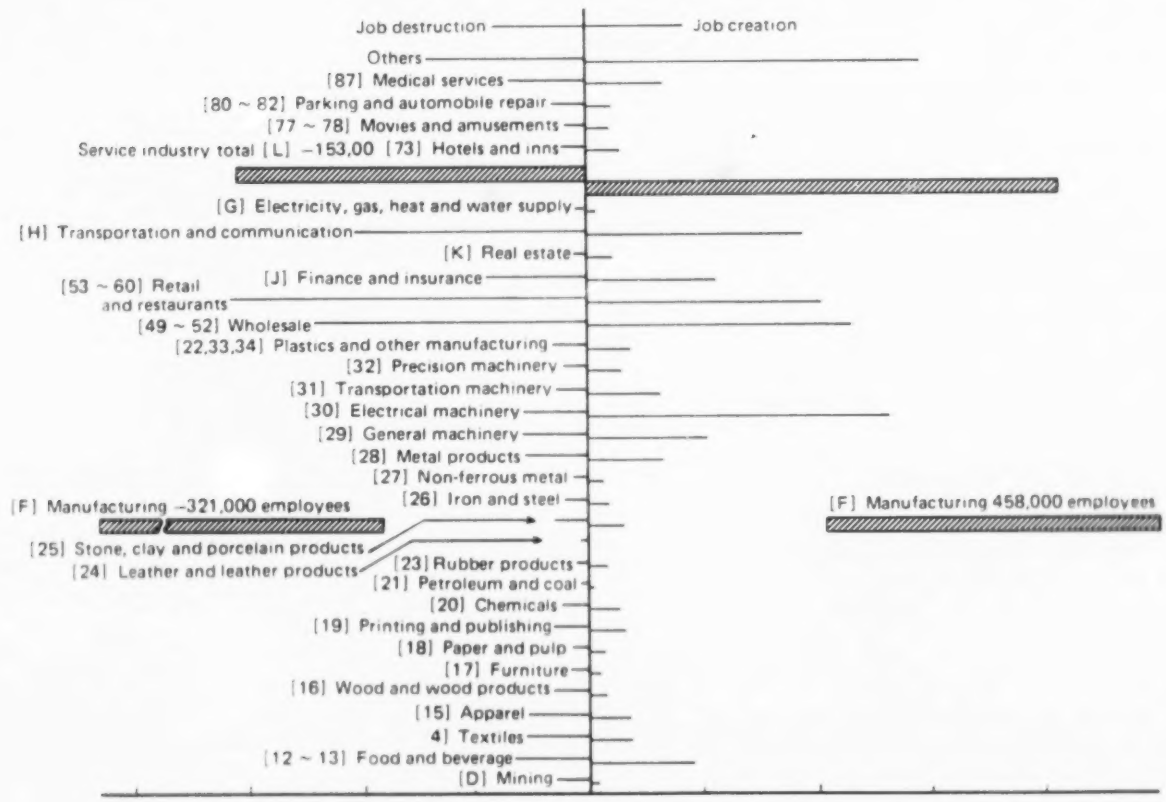
Figure 13. Job Creation and Job Loss by Establishment Scale (Industries covered, regular employees, 1984)



Source: Ministry of Labor, ***Survey on Employment Trends,*** 1985.

sized enterprises due to falling prices. These are the reasons some of the small businesses are very successfully keeping abreast of the times. Robots, NC machine tools and OA devices are also being introduced in large quantities to vitalize small business fields. Consequently, small- and medium-sized business has managed to erase the negative image of decline, and is enjoying a renaissance.

Figure 14. Job Creation and Job Loss by Industry (1984)



Source: Ministry of Labor, ***Survey on Employment Trends,*** 1985.
Note: Establishments recording employment increases and those recording decreases are listed in parallel by industry.

Chapter V
The Future of Industrial Relations in Japan

Viewed from an international context, it is evident that the labor market in Japan has flexibly coped with a variety of external changes since the oil crises. Systems specific to Japan, such as the bonus (regular extra pay) and the wage determination mechanism in the spring labor offensive have attracted much attention from observers in the U.S. and European countries.[6]

Let's discuss the flexibility of the labor market in Japan from such perspectives as: (1) entry to and exit from the labor market; (2) the external labor market, and; (3) the internal labor market. In times of recession, the peripheral labor force, primarily female workers in their early 30s, serves as a shock absorber in Japan; core employees retain their jobs while withdrawals are concentrated among peripheral workers. The role of the external market to reallocate resources is comparatively small; labor resources are mainly supplemented by the inflow of new graduates. Regarding the internal market, on the other hand, it is found that flexibility is maintained to some extent even in large-scale enterprises by reallocating overtime work to adjust the size of the work force to fluctuations in production, suspension of new hiring, transfer or leasing of workers to subsidiaries, etc.. Summing this up, we can conclude that the Japanese labor market is dependent more on the adjustment of quantity (employment) than on the adjustment of price (wages). In this process, industrial relations have the potential to determine and expedite the quantity adjustment.

As outlined in the above analysis, the labor market and industrial relations in Japan reached the present state after a variety of ups and downs in the four decades after World War II, undergoing vast restructuring from within during the process. Industrial relations have generated a homogeneous structure which is unparalleled in the world, having maintained a flexible approach to external changes throughout the lengthy zigzag course traced since World War II. As a result, Japan has succeeded in the eyes of the world, and established a level of prosperity deserving of the title "economic superpower".

However, the onset of new types of challenges in the 1980s is threatening management and industrial relations in Japan. One such trial is the remarkable increase of overseas investment as a result of the appreciation of the yen, which accelerated since 1986. This is accompanied by the export of employment opportunities and deindustrialization, or hollowing out, of the domestic industries. At the same time, the stronger yen has increased the difference in wages between the overseas and domestic markets, causing serious problems because of the illegal inflow of unskilled foreign workers.

Labor unions, one side of the industrial-relations equation, have gradually had their influence reduced in the process of shifting industry and employment structures, as is evident by the decreasing number and ratio of organized workers. Especially, the intensified competition among enterprises has made industrial relations at the enterprise level more individual and segmented.

This trend, which may be called 'fragmentation', is attracting attention as the paradigm for industrial relations in the developing age of the service economy and information society.[7] If the enterprise unions wish to revitalize themselves and strengthen their influence, isn't it necessary for them to widen their operational policies, participate in management and aim at almost complete employee management of enterprises? Of course, some solid vision and planning must be elaborated for this purpose. In addition, confederations of labor unions, with Rengo as their nucleus, must make more effort than ever to minimize the adverse effects of competition among rival companies, individualization and fragmentation of industrial relations, and to improve working conditions not only for union members, but also for unorganized workers.

This course of action is difficult to adopt for confederations of labor unions as represented by Rengo. It is, of course, of utmost importance to fully understand the interests of member unions or of individual workers, which are becoming more and more diversified and company-oriented due to economic pressure and rivalry. In the modern society, however, what is required of labor unions is not a smug labor-oriented attitude, but a movement to benefit a wider range of social strata.

Whether the industrial relations in Japan can remain vital depends on how this challenge is approached.

Notes:

(1) The author has already offered part of or an outline of this hypothesis in some academic journals. Because these publications are not necessarily in wide circulation, however, the hypothesis is explained again here (Kuwahara, 1984, 1988).

(2) Itami (1988) noted this point and proposed an attractive theory based on the concept of "human-based enterprise" (jinpon-shugi kigyo).

(3) It is interesting in making comparisons that a large number of employee-owned companies in the U.S. and other countries also employ part-time workers who are entitled to participate in the decision-making process.

(4) Of course, this is only one aspect of the situation. Due to the development of computer technology, the general skills of ordinary workers cover a greater range. This is reflected in the frequent movement of engineers from one company to another in the software industry, and elsewhere (Kuwahara et al., 1987).

(5) According to one estimate, union density will fall to 14% by 2000 (Economic Planning Agency, 1985, p. 91).

(6) It is true that the wage decision system in Japan is more flexible than those of the U.S. and European countries, which are based on collective bargaining. However, the degree of the flexibility is not necessarily ideal. It is also necessary to point out, therefore, that the mechanism of quantity adjustment in the internal market should be given more weight (Koshiro, 1986).

(7) This change named 'fragmentation' was first found by Brown (1986) in the industrial relations of the U.K., Later, it was further investigated by Dore making a comparison with Japan. Dore's report was contributed to an international conference held in Tokyo, and is therefore not readily available to the readers. However the author recommends the readers to persue both theses, if possible.

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Chronological Table of Industrial Relations in Japan

1868	Meiji Restoration
1880	Sales of government-owned factories to the private sector started.
1887	Some workers such as printers and ironworkers organized labor unions.
1894-95	The Sino-Japanese War
1897	The shed system of Mitsubishi Takashima Mine abolished. Rodokumiai Kiseikai, a party to prepare for labor-union organization, established. Ironworkers' Union and Japan Railway Kyoseikai (labor union) organized.
1899	Printers' Union organized.
1900	The Security Police Act
1901	Government-owned Yawata Ironworks opened.
1903	Ministry of Agriculture and Commerce issued "Status of Factory Workers."
1904-05	The Russo-Japanese War
1906	Japan Socialist Party organized.
1907	Rioting at Ashio Copper Mine
1910	The Lese-Majeste Affair. Decadence of socialist movement.
1911	Factory Law promulgated.
1912	Bunji Suzuki established Yuaikai (Friendly Society).
1914	World War I started.
1919	Kyochokai established.
1920	A large scale labor dispute at Yawata Ironworks. First May Day
1921	Nihon Rodosodomei organized.
1922	Japan Communist Party organized.
1925	General Election Law promulgated. Public Peace Maintenance Law promulgated.
1926	Labor disputes at Kyodo Printing Co., Ltd. and Nippon Gakki Co., Ltd.
1927	A large-scale dispute at Noda Shoyu.
1929	Lifting of the gold embargo Showa panic
1931	Prewar record for the number of labor disputes. The Manchurian Incident started.
1937	Sino-Japanese War started. National mobilization
1940	Organization of workers and farmers dismissed. Dainihon Sangyo Hokokukai (The Great Japan Federation of Patriotic Industries) inaugurated.

Taisei Yokusankai (The Imperial Rule Assistance Association) organized. (Merged with Dainihon Sangyo Hokokukai in 1942).

1941-45 World War II

1945 Hiroshima and Nagasaki reduced to ashes by atomic bomb explosion.

The Potsdam Declaration accepted.

Japanese delegation signed the surrender documents.

Dainihon Sangyo Hokokukai and Dainihon Romuhokokukai dissolved.

The Trade Union Law promulgated.

1946 Workers' control of Tsurumi Works, Nippon Kokan K.K.

Six labor unions, including the labor union of Tsurumi Works, Nippon Kokan and the labor union of Toshiba Corporation, started production control.

Labor dispute at theYomiuri Shimbun.

Japanese Confederation of Labor (Sodomei) organized.

Congress of Industrial Labor Unions of Japan (Sanbetsukaigi) organized.

Labor Relations Adjustment Law promulgated.

The Constitution of Japan promulgated (Came into effect on May 3, 1947).

Nichirokaigi (Congress of Labor Unions of Japan) organized.

1947 The General Headquarters ordered the suspension of February 1st general strike.

The Constitution of Japan came into effect.

Densan (Japan Electric Industry Workers' Union) and Tanro (Japan Coal Miners' Union) organized.

Ministry of Labor set up.

1948 The Japan Federation of Employers' Associations (Nikkeiren) organized.

Revised National Public Service Law and Public Corporation and National Enterprise Labor Relations Law promulgated.

Trade Union Law and Labor Relations Adjustment Law revised.

Dodge Line introduced.

The Korean War started.

Conference for organizing General Council of Trade Unions of Japan (Sohyo).

Red purge

The Peace Treaty with Japan signed.

The Japan-U.S. Security Treaty signed.

1952 The Third May Day. Bloodshed at the Palace Plaza.

Three labor laws revised.

1954 Human rights disputes at Ohmi Kenshi Co., Ltd.

All Japan Federation of Labor Unions (Zenro) organized.

Labor dispute at Amagasaki Steel Manufacturing Co.

Labor disputes at Muroran Works, Nippon Kokan K.K.

Sohyo consolidated five industry level offensives into a united wage increase spring offensive.

Japan Productivity Center established.

1956 The United Nations General Assembly admitted Japan.

1958 Labor dispute at Oji Paper Co., Ltd.;

1959	Minimum Wages Law passed the Diet.
1956	United movement to stop the revision of the Japan-U.S. Security Treaty.
	Labor dispute at Miike Coal Mine.
1964	Japan joined the OECD.
	Federation of IMF-JC
1973	First oil crisis
1980	UAW (International Union, United Automobile, Aerospace and Agricultural Workers of America) required the Japanese automobile manufacturers direct investment in the U.S.
1982	Japanese Private Sector Trade Union Council (Zenminrokyo) formed.
1987	Japanese Private Sector Trade Union Confederation (Rengo) formed.

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